brisa

ANNUAL REPORT 1976

BASIC RESOURCES INTERNATIONAL S.A.

MONICA R. BONNER
Vice President Administration

brisa Basic Resources International S.A.
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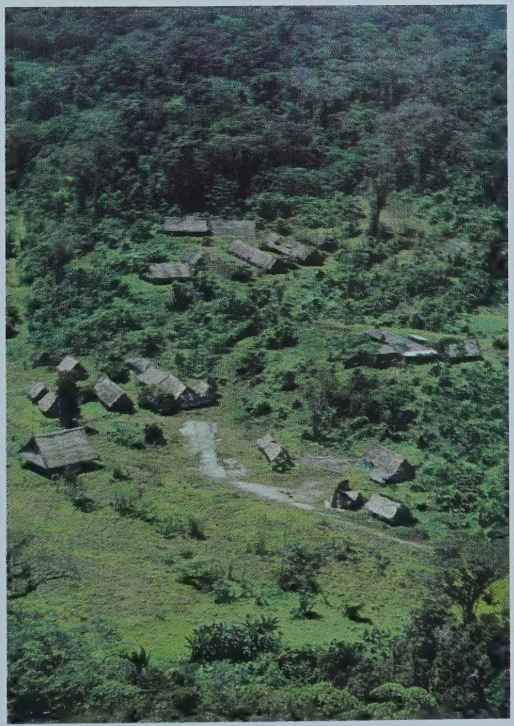
brisa *A single company-wide identity program was established in 1977. This program will help us to present a unified and cohesive BRISA organization worldwide and ensure that the benefits of recognition by one subsidiary accrue to all other subsidiaries.*

Above is our new symbol.

ANNUAL REPORT 1976

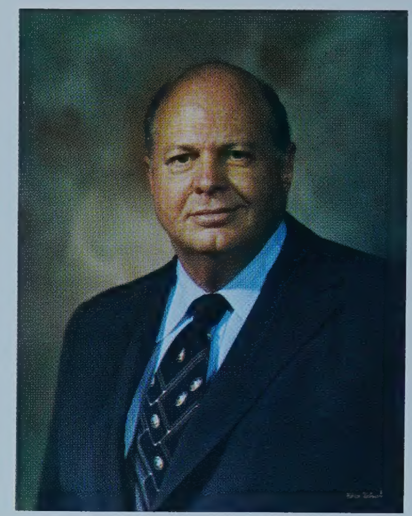


Tortugas-1972

Rubelsanto-1977

Petroleum Exploration Camps

PRESIDENT'S MESSAGE
To The Shareholder



Basic Resources International S.A. (BRISA), during the past year, has continued the transition from primarily an exploration company to a diversified natural resource company with important holdings in petroleum, copper, nickel and magnesite. Our policy of developing these resources through joint ventures with established, recognized leaders in each field has been more than successful. It allows BRISA to remain a holding company, with a relatively small staff, maintaining a minimum 50 percent interest in each project and, at the same time, acquiring the specialized business, technical and financial know-how required for the successful operation of each of these holdings from a distinguished list of new partners.

Since we have acquired many new shareholders in the past year, our report will summarize some of the past achievements in order to give these new shareholders the proper perspective on the origin, growth and objectives of our Company.

Our exploration activities have been concentrated in Guatemala, a country which until recently was better known for its agro-economy, its scenery and climate, than for its natural resources. Except for a brief flurry of petroleum exploration by the majors some twenty years ago, there had been no significant activity in this field. Yet, there exists the potential for development of major reserves of mineral and petroleum resources.

This situation is changing as Guatemala is becoming better known. International Nickel is completing a $220 million laterite nickel smelter. BRISA and its partners have made the first commercial petroleum discovery in Central America on the southeastern end of a large petroliferous basin, the northwestern part of which contains the prolific new discoveries in Mexico which have attracted so much attention in the press recently. There are at least fifty oil companies from throughout the world, including most of the majors, who have applied for contracts to explore for oil on areas adjacent to our concession. BRISA has arranged joint ventures with international companies who are leaders in their field for the investigation and development of major deposits of nickel and magnesite discovered through its exploration programs and is operating, for its own account, a small copper mine with ore averaging 2.5 to 3.0 percent copper. Major international consortiums (not associated with BRISA) have been organized to explore the mineral belts which reconnaissance geological studies by the United Nations indicated to have high potential. We anticipate that in the near future a sizeable portion of Guatemala's earnings will come from oil and mineral resources.

Guatemala has a secure, stable political and economic climate. Its currency reserves, despite inflationary pressures caused by rapidly escalating oil prices, have been well managed and have steadily increased. Through sound money management, its currency, the Quetzal, has been on a par with the U.S. Dollar for more than fifty years — a remarkable record considering the turbulent period of devaluation of most currencies.

There are no disenfranchised citizens. Everyone over eighteen years of age has a vote, regardless of race, color, sex or ethnic origin. The press is free (and vocal). There are closely contested elections every four years for President, Vice President and Congress in which all political parties, except the Communist, freely participate. Guatemala is a country of law and its citizens are progressive, with a high regard for the sanctity of a

contract and a belief in hard work and self-reliance. The country is a mixture of old tradition, impressive new architecture, a good communication network, and the bustle of commerce.

The foregoing could be summarized by saying that we are proud of Guatemala and have enjoyed our experience in operating in the country. We sometimes chafe at the time-consuming and perhaps bureaucratic procedures under which we work until we remember that we are dealing with a proud and sensitive people who are exercising caution to ensure that such development is consistent with their long-term objectives. We firmly believe that, as long as BRISA continues to operate in accordance with the laws of Guatemala with due regard to the national needs, we will be secure in our concession agreements.

The highlights of the past year's operation are:

1. *The fourth well on Rubelsanto (RS4A) was successfully completed. Engineering studies show that this well can be produced at the rate of 10,000 barrels per day. This was the fourth completion out of four wells drilled on the Rubelsanto structure.*
2. *The Government of Guatemala was notified of the discovery of a commercial petroleum reserve on Rubelsanto, and that the Petroleum Joint Venture (BRISA and Shenandoah) planned to produce Rubelsanto at an initial rate of 15,000 barrels per day. Sixty-two and one half percent of this production is for the account of BRISA.*
3. *A Contract was entered into with Entrepose S. A. by the Joint Venture for the construction of a pipeline from Rubelsanto to the east coast of Guatemala at a cost of $30 million. This pipeline has the capacity of 60,000 barrels per day with an initial pump station installed to handle the initial scheduled production of 15,000 barrels per day from Rubelsanto.*
4. *The Petroleum Joint Venture arranged $33 million in financing from a consortium of French banks led by Societe Generale to construct the pipeline to produce the Rubelsanto field. Sixty-two and one half percent of this financing is on behalf of BRISA.*
5. *BRISA and Societe Nationale Elf Aquitaine organized a new Bahamian company, BEA Petroleum Limited, owned 79 percent by BRISA and 21 percent by Elf Aquitaine.*
6. *BEA Petroleum Limited entered into a new joint venture with Shenandoah Oil Corporation to finance exploration and development of the portion of the Guatemalan petroleum concession excluding Rubelsanto.*
7. *BRISA entered into a joint venture with one of the leading magnesite producers in the world for the development of its magnesite property. The joint venture will be owned 50 percent by BRISA.*
8. *The Company sold by private placement to a group of major banks and financial institutions in Europe, for investment purposes, 928,000 common shares at a price of $9 per share.*
9. *The Company sold 200,000 common shares at $9 per share to The Ralph M. Parsons Company for investment purposes.*
10. *On August 25, 1976, the Company's shares were listed on NASDAQ, the OTC computerized market in the U.S., under the symbol BASRF. The shares continue to be listed on the Montreal Stock Exchange.*

I would recommend your attention to the following report which, for ease of reference, has been divided into our principal activities and which summarizes the activities of BRISA to date.

John D Park

John D. Park
President and Chief Executive Officer


EXPLORATION WELLS, 1977 PROGRAM
RUBELSANTO STRUCTURE
PIPELINE UNDER CONST.
Cu OXEC COPPER MINE
Ni NICKEL CONCESSION
Mg MAGNESITE MINE
PETROLEUM RIGHT
RECENT MEXICAN DISCOVERIES
KILOMETERS
MILES
SCALE
MAJOR CONCESSION AREA
53
57
PLAYA GRANDE
WEST CHINAJA
TORTUGAS
RS-1
RUBELSANTO
XALBAL
CHISEC
62
63
64
MERIDA
MEXICO
CARIBBEAN SEA
VILLAHERMOSA
REFORMA FIELDS
TUXTLA GUTIERREZ
Approximate Edge of Basin
JATATE RIVER
SAN PEDRO RIVER
HONDO RIVER
PASION RIVER
30
FLORES
ATLANTIC
BELIZE
PIPELINE ROUTE
PUERTO BARRIOS
CHEVRON-SHELL REFINERY 11,000 BOPD CAPACITY
HONDURAS
GUATEMALA
TEXACO REFINERY 14,000 BOPD CAPACITY
PACIFIC OCEAN
EL SALVADOR
SAN SALVADOR
brisa

brisa PETROLEUM

Basic Resources International (Bahamas) Limited, a wholly-owned subsidiary, holds a 50 percent interest in a 933,000 acre petroleum concession in Guatemala, as shown in the map on page 5, with Saga Petroleum A/S & Co. and Shenandoah Guatemala Inc. each holding 25 percent. There has been approximately $60 million spent to date on the exploration of the concession, with encouraging results. Surface geology, gravity and seismic activities have defined some thirty-seven structures which we believe to be excellent targets. Two of these structures have been drilled to date and oil discovered on both (Rubelsanto and Tortugas).

Rubelsanto Area:

On the Rubelsanto structure sufficient drilling has been performed to develop a commercial petroleum reserve. The concession holders have an agreement with a Joint Venture consisting of BRISA and Shenandoah Oil Corporation, a Texas company, for financing the exploration and development of Rubelsanto. A contract has been entered into with a major international pipeline company, Entrepose S.A., of France for the construction of a 12 inch pipeline from Rubelsanto to the east coast of Guatemala (a distance of approximately 120 miles) which, including the gathering system, pump station and tanker loading facilities, will cost $30 million. The production from Rubelsanto will be 62½ percent for the account of BRISA, and 37½ percent for Shenandoah. The development work was financed by a loan of FF128,000,000 (U.S. $25 million) from a consortium of French banks, led by Societe Generale, with the loan insured against political risk by COFACE, an agency of the French Government. The interest rate is an attractive 7.25 percent per year. A Eurodollar loan of $8 million was also arranged with this same banking consortium for a total financing of $33 million.

Construction of the pipeline will commence upon the issuance of the transportation right expected sometime mid-year 1977 and is scheduled for completion in 15 months. The pipeline is sized for a throughput of 60,000 barrels per day to provide additional capacity for new discoveries, although the initial pump station will be installed for 15,000 barrels per day, the production rate scheduled for Rubelsanto.

Concession Excluding Rubelsanto:

The titleholders have entered into an agreement with a new Joint Venture arranged between Shenandoah (30 percent) and BEA Petroleum Limited (70 percent), to explore and develop the concession area outside the Rubelsanto structure. The 1977 exploration program for this area consists of three widely-spaced wildcat wells to obtain regional control and to test the potential of the concession area while development work is being carried out on Rubelsanto. The first of these wildcats now being drilled is located on the Xalbal structure, some 50 kilometers west of Rubelsanto. This well is programmed for a depth of 15,000 feet. The second wildcat well is now being drilled on the Chisec structure, some 20 kilometers south of Rubelsanto. An access road is being constructed north of Rubelsanto, and geological studies are being conducted to select one of several structures in that area for the third test which is scheduled to begin upon completion of the Xalbal well.

BEA Petroleum Limited, a Bahamian subsidiary, is owned 79 percent by BRISA and 21 percent by Societe Nationale Elf Aquitaine, a French oil company. Elf Aquitaine, an international oil company which operates in some 33 countries in the world, has 38,000 employees and assets of over $7 billion. Its shares, listed on the Paris Stock Exchange, are owned by thousands of shareholders. Elf's largest shareholder, holding 70 percent of its shares, is Enterprise de Recherches et d'Activites Petrolieres, an agency of the French Government.

We expect Elf Aquitane to make a significant contribution through its technical, financial and marketing skills to the success of the exploration program.

brisa | **COPPER**

Transmetales Limitada, a wholly-owned subsidiary, has an operating copper mine on a 5000 acre concession in Guatemala. The mine produces approximately 400 tons per day of copper ore averaging approximately 2.7 percent copper. This ore is processed into a 28 percent copper concentrate at the mine site. The total output has been sold to Rio Tinto Patino S.A. at prices quoted on the London Metal Exchange, at time of delivery less a charge of approximately 19 cents per lb. for smelting and refining. The output from the concentrator is approximately 12,000 tons per year.

Copper prices are unrealistically low, in view of the cost of bringing new mines into production. Experts in this field are of the opinion that copper must be $1 or more per lb. to justify new capital investment. Present day prices are in the 62 to 67 cent range which is approximately a cash break-even point, without provision for amortization of investment. This situation reflects the present ownership of a good portion of the world's existing copper mines by governments who, once involved, continue to operate the mines as a matter of government policy without regard to economics. Unfortunately, this policy, which discourages new investments, will create a shortage in several years as demand continues to rise and new capital investments lag.

The mine and mill are operating efficiently and the miners and mill operators are now well trained. So, if copper prices rebound as we expect for next year, the copper mine will become a profit center for the Company.

brisa | **MAGNESITE**

Explom Limitada holds an exploitation concession in Guatemala on which there has been developed an ore deposit containing approximately 7 million tons of raw magnesite ore, low in impurities, and well situated with respect to transportation facilities.

The Company has recently entered into a joint venture with one of the leading magnesite companies in the world: Veitscher Magnesitwerke A.G. (VMAG) for the development of this ore deposit. VMAG, established in Austria in 1881, is one of the world's largest producers of refractory grade magnesite bricks from natural deposits.

Explom Limitada is wholly-owned by Magnesite International Bahamas Limited, which in turn is owned fifty percent each by BRISA and VMAG.

VMAG is carrying out the necessary metallurgical test work in their laboratories in Austria to ensure the economic production of specification dead-burned magnesite and to determine the most economic design of the facilities to be constructed to beneficiate and calcine the ore. A preliminary estimate of the cost of a plant with the capacity to produce 30,000 tons per year of dead-burned magnesite is approximately $10 million.

On successful completion of metallurgical tests, VMAG will purchase the total output from the new plant for a minimum of five years on favorable terms based on world prices, and will provide technical and operating support.

This new arrangement with VMAG, a world leader in the production of high-grade magnesite refractories, gives the Company access to the specialized expertise to ensure the successful and timely development of this property to its maximum potential.

brisa NICKEL

Transmetales Limitada, a wholly-owned subsidiary, holds laterite nickel deposits, where exploration work has defined approximately 43 million tons of ore averaging 1.79 percent nickel. The orebody is well located with respect to transportation facilities.

An engineering report by the Parsons-Jurden Division of The Ralph M. Parsons Company, indicates that a 60,000,000 lb. per year smelter could be constructed at a cost of $260 million (excluding financing charges), and that such smelter at today's prices should have a cash flow of approximately $94 million per year for amortization of investment and profit, assuming that fuel for operations is purchased from normal commercial sources.

The economics of a lateritic nickel smelter are very sensitive to fuel cost. When the Rubelsanto oil field goes into production in 1978, approximately 15-20 percent of the total energy produced from the field will be in the form of natural gas. At the scheduled production rate of 15,000 barrels per day, there should be approximately 14 million cubic feet of gas produced with the crude oil, which would be sufficient to supply 40 percent of the fuel requirement of such smelter. If the exploration results of the 1977 Program are successful, and sufficient reserves are developed to bring the crude oil pipeline to capacity, gas production (at the same gas/oil ratios) would be over 50 million cubic feet of gas per day which would be 150 percent of the smelter requirements. The studies of Parsons-Jurden indicate that use of natural gas as fuel, priced at 50 cents per 1000 cubic feet at the wellhead, would reduce the direct operating cost of nickel from 68 cents to 39 cents per lb. — a sizeable reduction which could go a long way toward offsetting any competitive advantage of long-established leaders in the field. The Company is presently in negotiations with regard to the formation of a fifty-fifty joint venture with a major U.S. resource group to develop this orebody.

CONSOLIDATED BALANCE SHEETS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1976 and 1975

ASSETS

	1976	1975
CURRENT ASSETS		
Cash	**$ 564,336**	$ 132,386
Certificates of deposit	**3,250,000**	3,000,000
Accounts and notes receivable	**92,440**	87,413
Inventories (Note 1)	**1,405,852**	1,173,597
Prepaid expenses	**129,002**	61,372
Other assets	**346,739**	99,545
Total current assets	**5,788,369**	4,554,313
DEFERRED EXPLORATION, DEVELOPMENT AND EQUIPMENT (Note 1)		
Property in Operation		
Mine development and equipment costs	**6,309,920**	5,834,113
Deferred exploration and pre-operating costs	**4,473,897**	4,473,897
Less accumulated depreciation, depletion and amortization	**(3,159,089)**	(1,866,234)
	7,624,728	8,441,776
Properties in Exploration and Development		
Guatemala	**16,401,391**	13,350,987
North American (Note 2)	**421,944**	421,944
	24,448,063	22,214,707
OTHER DEFERRED CHARGES (Note 4)	**352,959**	449,176
Total assets	**$30,589,391**	$27,218,196

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1976 and 1975

LIABILITIES AND STOCKHOLDERS' EQUITY

	1976	1975
CURRENT LIABILITIES		
Notes payable (Note 4)		
Banks	**$ —**	$ 302,153
Other	**37,766**	165,901
Current maturities of long-term debt (Note 4)	**3,400,000**	2,156,225
Accounts payable and accrued liabilities	**1,048,534**	1,247,857
Total current liabilities	**4,486,300**	3,872,136
DEFERRED LIABILITIES (Note 5)	**296,000**	299,523
LONG-TERM DEBT (Note 4)	**6,000,000**	9,400,000
Total liabilities	**10,782,300**	13,571,659
STOCKHOLDERS' EQUITY (Note 6)	**19,807,091**	13,646,537
Total liabilities and stockholders' equity	**$30,589,391**	$27,218,196

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF REVENUES AND COSTS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
Years ended December 31, 1976 and 1975

	1976	1975
OXEC COPPER OPERATION		
Sale of copper concentrate (Note 1)	**$ 2,604,390**	$ 2,003,568
Less Oxec operating costs	**(3,484,207)**	(2,717,977)
Operating Loss (exclusive of items shown separately below)	**(879,817)**	(714,409)
OTHER COSTS AND EXPENSES, NET (Note 1)		
Depreciation, depletion and amortization	**1,397,780**	1,324,605
General, administrative and other expenses	**2,701,600**	3,147,206
Less amounts deferred	**(2,208,075)**	(2,235,592)
	1,891,305	2,236,219
NET LOSS	**$(2,771,122)**	$(2,950,628)
NET LOSS PER SHARE (Note 7)	**$(0.37)**	$(0.48)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1976 and 1975

	1976	1975
COMMON STOCK (Note 6)		
Common Stock, par value $3.30, authorized 14,000,000 shares; issued and outstanding 8,057,439 and 6,834,598	**$26,589,549**	$22,554,173
CAPITAL IN EXCESS OF PAR VALUE (Note 6)		
Excess of par value of common stock issued for predecessor company over book value at date of exchange	**(9,012,328)**	(9,012,328)
Excess of proceeds received over par value of common stock issued on sales of stock and exercise of warrants and options	**7,951,620**	3,055,320
Capital in excess of par value at end of year	**(1,060,708)**	(5,957,008)
RETAINED DEFICIT (Note 1)	**(5,721,750)**	(2,950,628)
TOTAL STOCKHOLDERS' EQUITY	**$19,807,091**	$13,646,537

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
Years Ended December 31, 1976 and 1975 and period since inception to December 31, 1976

	Year Ended December 31, 1976	Year Ended December 31, 1975	Since Inception to December 31, 1976
SOURCES OF FUNDS			
Loss for the period	**$ (2,771,122)**	$ (2,950,628)	$ (5,721,750)
Less depreciation, depletion and amortization	**1,397,780**	1,324,605	3,581,851
Funds used in operations	**(1,373,342)**	(1,626,023)	(2,139,899)
Issue of sinking fund debentures	**—**	9,000,000	14,500,000
Sale of stock and exercise of warrants and options	**8,931,676**	8,961,880	25,528,841
Proceeds from loans and advances	**—**	—	6,465,631
Total sources of funds	**7,558,334**	16,335,857	44,354,573
USES OF FUNDS			
Reduction of long-term debt and deferred credits	**3,403,523**	5,421,287	14,669,632
Deferred exploration and development charges	**3,108,075**	2,715,313	21,966,034
Acquisition of property, plant and equipment net of retirements	**426,844**	73,943	6,416,838
Total uses of funds	**6,938,442**	8,210,543	43,052,504
INCREASE IN WORKING CAPITAL	**$ 619,892**	$ 8,125,314	$ 1,302,069
Changes in components of working capital			
Cash and certificates of deposit	**$ 681,950**	$ 2,946,713	$ 3,814,336
Accounts and notes receivable	**5,027**	(360,179)	92,440
Inventories	**232,255**	687,721	1,405,852
Other assets	**247,194**	99,545	346,739
Prepaid expenses	**67,630**	14,810	129,002
Notes payable	**430,288**	4,797,545	(37,766)
Current maturities of long-term debt	**(1,243,775)**	(523,841)	(3,400,000)
Accounts payable and accrued liabilities	**199,323**	463,000	(1,048,534)
Total increase in working capital	**$ 619,892**	$ 8,125,314	$ 1,302,069

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

Deferred exploration and development cost

The Company and its subsidiaries (hereinafter referred to collectively as the "Company") are for the most part in the exploration and development stage of various natural resource concessions in Guatemala. This includes the petroleum, nickel and magnesite concessions. Operations have been started on a portion of the copper concession at the Oxec Mine and commercial production was achieved in 1975; the entire Oxec production is sold to Rio Tinto Patino of Spain under an agreement in effect through 1983. A portion is still in exploration at December 31, 1976.

All costs, net of pre-operating revenues, incurred by the Company, including exploration, financing, administrative, organizational, promotional and depreciation expenses, were deferred prior to 1975. In 1975, the Company began amortizing on a straight line method over eight years, the previously deferred costs allocated by the Company to the Oxec copper concession.

The 1976 and 1975 results of Oxec are reflected in the accompanying Consolidated Statements of Revenues and Costs.

Indirect administrative costs incurred in 1976 and 1975 by the Company of $2,701,600 and $3,147,206, respectively, including interest costs, have been allocated by the Company to its various concessions. $493,525 and $911,614 in 1976 and 1975, respectively, of such costs were allocated to Oxec and charged directly to expense. The balances have been deferred.

The Company's allocation of deferred exploration and development costs related to Guatemalan properties excluding expenditures aggregating approximately $23,600,000 and $14,100,000 in 1976 and 1975, respectively, and $13,700,000 at December 31, 1974 incurred by other parties in connection with joint venture agreements entered into with the Company, is as follows:

	1976	1975
Property in Operation		
Copper (Oxec) net of amortization	$ 3,355,424	$ 3,914,660
Properties in Exploration and Development		
Copper	333,911	395,600
Petroleum	12,536,805	9,869,388
Nickel	2,383,124	2,071,787
Magnesite	929,658	738,646
	16,183,498	13,075,421
	$19,538,922	$16,990,081

The recovery of these deferred costs, which will be amortized as the concessions become commercial, together with equipment costs is dependent on the future commercial productivity of the concessions.

Property, plant and equipment

Property, plant and equipment accounts are carried at cost and depreciated over the estimated useful life of the assets, principally on the straight-line method.

Principles applied in consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries which consist principally of two Guatemalan subsidiaries, Transmetales Limitada and Recursos del Norte Limitada, and two Bahamian subsidiaries, Basic Resources International (Bahamas) Limited and Basic Resources (Petroleum) Limited. All subsidiaries are wholly-owned and all significant intercompany items and transactions have been eliminated.

Foreign translation

The accounts of the Company and its Bahamian subsidiaries are maintained in U.S. Dollars. The accounts of the Guatemalan subsidiaries are maintained in the Guatemalan currency (Quetzal) which has been at par with the U.S. Dollar since 1924. There are no restrictions on foreign exchange transactions. The Company has adopted the practice of stating its consolidated financial statements in U.S. currency.

Inventory valuation

Inventories consist of copper concentrate and materials and supplies and are all valued at the lower of cost (FIFO) or realizable value.

(2) Exploration of oil and gas properties in North America:

The amount of exploration costs associated with operations in North America represents a 50% net profit interest in certain oil and gas leases of Petrotech, Inc. (See Note 8). The oil and gas leases were sold by Petrotech during 1976; however, the Company does not expect to receive any recovery on its investment until December 1977, and will not be able to ascertain its final recovery until December 1980.

(3) Concessions in Guatemala:

The Company is the holder of certain petroleum rights and copper, magnesite and nickel concessions in the Republic of Guatemala.

Principal Mineral	Concession	Status
PETROLEUM	(Six Petroleum Rights, 87, 88, 89, 90, 91 and 92)	Basic Resources International (Bahamas) Limited holds a 50% undivided interest in six petroleum rights 87, 88, 89, 90, 91 and 92 (approximately 933,000 acres) granted in 1970 by the Government of Guatemala. The remaining portions of the petroleum rights are owned 25% by Saga Petroleum A/S & Co. and 25% by Shenandoah Guatemala, Inc. The original term of the concession was to March 10, 1976, when it was renewed in accordance with the Petroleum Code for a period of two years as an exploration right. A declaration, in accordance with the Petroleum Code, was made to the appropriate government officials that petroleum has been discovered in commercial quantities on the Rubelsanto structure on exploration right 92. In accordance with the Code, this gives the exploration right the character of an exploitation right, and gives the titleholders the rights, and subjects them to the obligations, of a holder of an exploitation right. The authorities accepted this declaration and fixed a period of two years from September 15, 1976 for the titleholders to delineate the area, this period forming a part of the 40 year exploitation period. The titleholders have an agreement with a Joint Venture consisting of the Company (62½%) and Shenandoah Oil Corporation (37½%) whereby the Joint Venture is supplying all financing for both the exploration and development of the petroleum rights, and takes the production from these petroleum rights. Saga Petroleum A/S & Co. receives a 1¼% net proceeds interest until Shenandoah and the Company recoup all expenditures made on behalf of Saga's 25% of the petroleum rights, at which time Saga may at its option acquire a 5% working interest in the Joint Venture (2½% from the Company and 2½% from Shenandoah). Exploration costs are 25% for the account of the Company and 75% for the account of Shenandoah, until such time as the Xalbal and Chisec wells are completed, or until the direct cost of these two wells reaches $8 million, whichever occurs first. After this time, exploration costs on the petroleum rights are shared 62½% by the Company and 37½% by Shenandoah, and the Company and Shenandoah shall be entitled to 62½% and 37½% of the net production. By agreement with the Government of Guatemala, the total of royalties, income taxes and any other applicable taxes payable shall be 51% of the value of the crude at the wellhead. The Government by prior arrangement may take these royalties and taxes in kind. Certain Guatemala citizens receive a 2% royalty. See Note 10 for description of events subsequent to December 31, 1976.
COPPER	Oxec	An exploitation concession was granted in October 1972, for a period of 40 years.
	Chisayte	An exploration concession was granted in July 1976 for a period of 3 years.
	Chiacach	Application has been made for the conversion of the exploration concession to an exploitation concession, as provided under the Mining Code.
MAGNESITE	Diana Patricia (Saquipec)	An exploitation concession was granted in June 1973 for a period of 40 years. See Note 10 for description of events subsequent to December 31, 1976.
NICKEL	Chitcoj, Chiis, Chatela, Buena Vista A, Buena Vista B	Application has been made for the conversion of the exploration concessions to exploitation concessions as provided under the Mining Code.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Short-term borrowings and long-term debt:

Short-term borrowings:

The Company has an agreement with a bank under which the bank advances to the Company amounts equal to 60% of the provisional invoice value of copper concentrate sold, at 1¼% per annum over the London Interbank interest rate. There was no amount outstanding under this agreement at December 31, 1976 ($2,153 at December 31, 1975).

Maximum amounts of short-term bank loans outstanding were approximately $1,200,000 and $4,600,000 during 1976 and 1975, respectively. The average outstanding balances during 1976 and 1975 were approximately $198,000 and $2,800,000, respectively.

Long-term debt:

	1976	1975
Sinking Fund Debentures due September 1980	$8,000,000	$ 9,000,000
1973 Transmetales Loan due June 1977	1,400,000	2,400,000
Debentures due May 1976	—	125,000
Other	—	31,225
	$9,400,000	$11,556,225
Less current maturities	3,400,000	2,156,225
Long-term	$6,000,000	$ 9,400,000

In 1975, the Company sold $9,000,000 of Sinking Fund Debentures, which will mature on September 10, 1980, and may be redeemed, at the option of the Company, prior to that date upon payment of a premium of 4% prior to September 10, 1977 and decreasing progressively 1% on September 11 in each of the years 1977, 1978, and 1979. The debentures shall bear interest at 1¾% over the London Interbank Eurodollar rate, payable semi-annually in March and September. The interest rate was 8% per annum at December 31, 1976, and 10% per annum at December 31, 1975. The Indenture, dated September 5, 1975, provides for Sinking Fund payments of $2,000,000 each year at December 31, 1977 to 1979 inclusive. As security, the Company has pledged and delivered to the Trustee all the capital shares of Basic Resources International (Bahamas) Limited and Basic Resources (Petroleum) Limited. The costs of $481,087, incurred applicable to the issuance of these debentures, have been deferred and are being amortized over the term of the debt. The deferred portions as of December 31, 1976 and 1975 are $352,959 and $449,176, respectively.

In conjunction with the above issue of debentures, the Company issued share purchase warrants which expire on September 10, 1980 entitling the holders thereof to purchase an aggregate of 1,000,000 common shares. These warrants are exercisable at varying prices as follows:

Period	Per Share Price
On or before September 10, 1977	$12.00
September 11, 1977 to September 10, 1978	14.00
September 11, 1978 to September 10, 1979	17.00
After September 10, 1979	20.00

At the option of the warrant holders, satisfaction of the exercise price may be made either in cash or by the delivery of debentures, or a combination of both.

The 1973 Transmetales Loan represents borrowings made by the Company under a May 1973 agreement. This agreement calls for repayment of the debt balance of $1,400,000 in 1977 with interest payable at 2¼% over the Eurodollar rate; 20% of the net smelter returns from the sale of copper concentrate from the Oxec Mine is reserved for the repayment of this loan. The loan is secured by a first mortgage on the Oxec Copper Mine and Plant.

The Debentures due May 4, 1976, of which $125,000 were outstanding at December 31, 1975, have been redeemed by the Company at maturity, at which time the Debentures bore interest at 9½% per annum. In conjunction with the issue of these debentures, the Company had issued share purchase warrants pursuant to an Indenture dated May 4, 1971, as amended June 25, 1971, which entitled the holders thereof to purchase an aggregate of 2,200,000 common shares, all of which were exercised at December 31, 1976. In 1976, holders of such warrants purchased 129,001 shares at $6.00 per share. In 1975, holders of such warrants purchased 420,000 shares at $5.00 per share and 910,003 shares at $6.00 per share.

(5) Deferred liabilities:

Deferred liabilities consist primarily of advances repayable solely out of 50% of any future net revenues, as defined, that may be received by the Company from certain concessions.

(6) Common Stock:

A statement of owners' investment from the inception of the Company in 1968 through December 31, 1974, is as follows:

	Shares Issued	Value Received (a)
From inception to June 30, 1970:		
Issued for cash	3,155,651	$ 433,530
Contributed surplus arising from joint venture payments	—	675,000
During fiscal year ended June 30, 1971:		
For cash	160,711	626,335
For services rendered in connection with the sale of debentures	100,000	245,000
For conversion of debt	435,763	1,696,401
For acquisition of 50% of Petrotech, Inc.	256,042	826,319
During the fiscal year ended June 30, 1972:		
For acquisition of options on nickel concessions	60,028	238,100
For exercise of stock options	2,900	11,600
	4,171,095	4,752,285
Excess of par value of common stock issued for predecessor company over book value at date of exchange (b)	—	9,012,328
	4,171,095	13,764,613
During the six months ended December 31, 1972:		
For services rendered in connection with the sale of debentures	100,000	330,000
During the year ended December 31, 1973:		
For part of the purchase price of the copper beneficiation plant	100,000	330,000
For exercise of share purchase warrants by payment of cash ($98,000) and par value of debentures (Note 4) (c)	740,996	2,445,287
Balance, December 31, 1973 and 1974	5,112,091	$16,869,900

(a) Amounts recorded for issue other than for cash were in accordance with resolutions of the Board of Directors.

(b) Basic Resources International S.A. was incorporated in Luxembourg in December 1971 and acquired the net assets of Basic Resources International Limited, a predecessor company incorporated in Ontario, Canada. The par value of 4,171,095 shares of common stock issued at $3.30 per share exceeded the $4,752,285 net assets of the predecessor company by $9,012,328.

(c) The 740,996 shares were issued at $3.00 per share resulting in a $222,286 excess of par value of common stock issued over proceeds received from exercise of warrants.

An analysis of the increase in common stock for the two years ended December 31, 1976, is as follows:

	Shares Issued	Amount: Par Value	Amount: Capital in Excess of Par Value
Balance, December 31, 1974	5,112,091	$16,869,900	$(222,286)
Exercise of share purchase warrants granted under term of an Indenture (See Note 4)	1,330,003	4,389,010	3,171,008
Sale of treasury stock for cash	159,004	524,713	82,342
Exercise of options granted under an employee stock option plan and other	233,500	770,550	24,256
Balance, December 31, 1975	6,834,598	22,554,173	3,055,320
Issuance of stock for cash	928,300	3,063,390	4,494,398
Exercise of share purchase warrants granted under term of an Indenture (See Note 4)	129,001	425,704	348,303
Exercise of options granted under an employee stock option plan and other (a)	165,540	546,282	53,599
Balance, December 31, 1976	8,057,439	$26,589,549	$ 7,951,620

(a) In addition to the exercise of employee stock options during 1976, other options for a total of 105,540 shares were exercised during 1976. 65,681 shares under option were cancelled in exchange for a total cash payment of $65,681 to the option holders, and 445 options expired.

As of December 31, 1976, there are 1,229,000 shares of common stock reserved as follows:

(a) There are 1,000,000 shares of common stock of the Company reserved for issue upon the exercise of share purchase warrants in connection with the issue of Sinking Fund Debentures, under an Indenture dated as of September 5, 1975, described in Note 4.

(b) The Company is authorized, under certain conditions, to issue to directors, officers and key employees options totaling a maximum of 5% of the outstanding shares. At December 31, 1976, 204,000 shares of common stock are reserved for issue upon exercise of such options as follows:

30,000 shares at $3.30 per share expiring August 8, 1978
49,000 shares at $3.30 per share expiring April 14, 1979
50,000 shares at $5.00 per share expiring April 11, 1977
10,000 shares at $5.50 per share expiring June 12, 1978
50,000 shares at $5.50 per share expiring June 12, 1980
15,000 shares at $8.50 per share expiring December 16, 1981

Of the 204,000 shares reserved, 168,667 shares were earned at December 31, 1976. During 1976, 15,000 shares were granted, 60,000 shares were exercised, and 15,000 shares were forfeited.

(c) There are 25,000 shares reserved for issue pursuant to an option granted in 1974 to Mr. Rudi Weissenberg Martinez, the former holder of the petroleum concession in Guatemala. This option expires in October 1977, and is exercisable at $3.30 per share.

(7) Net loss per share:

Net loss per share has been computed based on 7,402,117 and 6,131,042 average common shares outstanding for the years ended December 31, 1976 and 1975, respectively. All outstanding warrants and options have been excluded from the calculation since their effect would be anti-dilutive.

(8) Transactions with officers, directors, and/or related parties:

The Company has, from time to time, incurred short-term borrowings from certain of its officers and directors in the form of demand loans with interest rates approximating prime rates at the time the loans were incurred. There were no such loans during 1976 and during 1975 the maximum amount outstanding was $750,000. These loans were generally bridge financing to cover working capital requirements while arrangements were being completed for normal commercial loans.

As explained in Note 2, the Company has an agreement with Petrotech, Inc. concerning exploration for oil and gas in North America. Mr. Peter C. Golffing, a former director of the Company, is Chairman of the Board and a major shareholder of Petrotech, Inc.

Under an agreement dated September 20, 1969, $100,000 is payable to Mr. Golffing out of the net proceeds received by the Company from the exploitation of the petroleum concessions referred to in Note 3.

Mr. Richard S. Aldrich, a director of the Company, is president of First Washington Securities Corporation, the Company's former investment bankers who held an option to purchase stock of the Company as of December 31, 1975. In 1976, the Company bought substantially all such option for a price of $1.00 per share under call.

(9) Salaries and remuneration of officers and directors:

Salaries and remuneration of officers and directors were approximately $247,000 for the year ended December 31, 1976, and $204,000 for the year ended December 31, 1975.

(10) Events Subsequent to December 31, 1976:

Petroleum Joint Venture

BEA Petroleum Limited was organized in the Bahamas with an authorized capital of 1,000,000 shares of $1 par value. Societe Nationale Elf Aquitaine has agreed to acquire 214,286 of such shares, at the par value thereof, and the Company has subscribed for 785,714 of such shares.

BEA has entered into a Joint Venture with Shenandoah Oil Corporation to provide financing for the exploration and development of the petroleum rights, excluding Rubelsanto, and the Joint Venture has entered into an agreement with the titleholders of these petroleum rights for such financing, and for the assignment of production to the BEA-Shenandoah Joint Venture. BEA will arrange at its sole risk and expense for the drilling of the exploration well on Chisec mentioned in Note 3 and one other structure, while Shenandoah and BEA share the other explora-

tion expenses 63¾% by Shenandoah and 36¼% by BEA. BEA shall have the option to drill a third well, in which event, any production excluding that from Rubelsanto will be shared 30% for Shenandoah and 70% for BEA. BEA shall have the further option to finance an additional $8 million in exploration activity, in which event any future production, excluding that from Rubelsanto, shall be shared 25% for Shenandoah and 75% for BEA.

The Company and Shenandoah are entitled to recoup from production of the petroleum rights, excluding Rubelsanto, $5 million if the Xalbal well mentioned in Note 3 is dry and $20 million if the well is successfully completed. The production is subject to the same payment of 2% overriding royalty and 1¼% net proceeds interest, as described in Note 3.

Elf Aquitaine has agreed to contribute to BEA the funds required to enable BEA to finance the drilling of the two exploration wells (one on Chisec and one on the additional structure) and 15% of the other exploration expenses. Upon completion of this drilling program, Elf Aquitaine has the option to contribute to BEA the funds required for BEA to finance the drilling of the third well and 15% of the other exploration expenses. Should Elf Aquitaine not so elect, they agree to transfer at no cost their 214,286 shares of BEA to the Company. Upon completion of the third well, providing Elf Aquitaine finances such well, they have the option to acquire from the Company 108,047 shares of BEA in consideration for contributing an additional $8 million to enable BEA to finance an additional $8 million in exploration activity.

BEA also has options to purchase for cash, under certain terms and conditions, up to 75% interest in the Rubelsanto production and the pipeline and related facilities. These options are subject to approval by the lending banks referred to below.

Pipeline

On February 4, 1977, the Company and Shenandoah Guatemala, Inc. entered into an agreement with Entrepose S.A. for the furnishing of materials, equipment and construction of a 12 inch pipeline from Rubelsanto to the east coast of Guatemala, including gathering system and tanker loading facilities, at a cost of approximately $30 million. Construction will commence upon the issuance of the transportation right expected mid-year 1977 and be complete in 15 months.

On February 4, 1977, the Company and Shenandoah Guatemala, Inc. entered into agreements with a consortium of banks headed by Societe Generale, for:

a) a buyers credit loan of French Francs 127,633,000, repayable in installments over a period of five years commencing six months after completion of the pipeline or 25 months from coming into force of this construction contract, whichever is earlier, bearing interest at the rate of 7¼% per annum. This loan is insured against political risk by COFACE, an agency of the French Government.
b) a Eurodollar loan of $8,000,000, repayable in installments commencing February 4, 1979 through February 4, 1982, bearing interest at the annual rate of 2¼% margin over the London Interbank offered rate.

The debt is a joint and several obligation of Basic Resources International (Bahamas) Limited and Shenandoah Guatemala, Inc. and has been guaranteed severally as to 62½% by Basic Resources International S.A. and 37½% by Shenandoah Oil Corporation. The guarantors are relieved of their obligations under such guarantee agreements as they apply to the COFACE insured loan upon the happening of certain political events. The Company is providing bank letters of credit for 10% of its obligation under this guarantee.

The two loans listed above total the equivalent of approximately $33,000,000 and the amount in excess of the construction contract price is intended for interest during the construction period, and the payment of insurance premiums to COFACE.

Magnesite

On February 24, 1977, the Company entered into an Agreement with Veitscher Magnesitwerke A.G. (VMAG), a major world magnesite producer, whereby a joint venture would be formed to do a feasibility study of the Company's magnesite property. Subsequent to this Agreement, Magnesite International Bahamas Limited (MIB) was organized in the Bahamas. The Company transferred all of the shares of Explom Limitada, the company which holds the exploitation concession for magnesite and other related assets, to MIB and received a 50% interest in MIB. VMAG has agreed to fund MIB for $750,000 to enable it to conduct the full feasibility study of the development of the property and has received a 50% interest in MIB. If the results of the feasibility study are satisfactory to both the Company and VMAG, the Agreement sets out the terms and conditions under which the property would be developed with both parties retaining a 50% interest. VMAG has undertaken to purchase the entire production, at prevailing world prices, for a minimum of 5 years from commencement of production on a commercial scale.

Other

a) On February 17, 1977, the Company conducted a private sale to The Ralph M. Parsons Company of 200,000 shares of common stock at $9.00 per share less an agents commission of 5%.
b) On April 11, 1977, Dr. D. D. Utterback, a consultant and former employee of the Company exercised his option and purchased 50,000 shares of common stock at $5.00 per share.

AUDITORS' REPORT

To the Stockholders of
BASIC RESOURCES INTERNATIONAL S.A.:

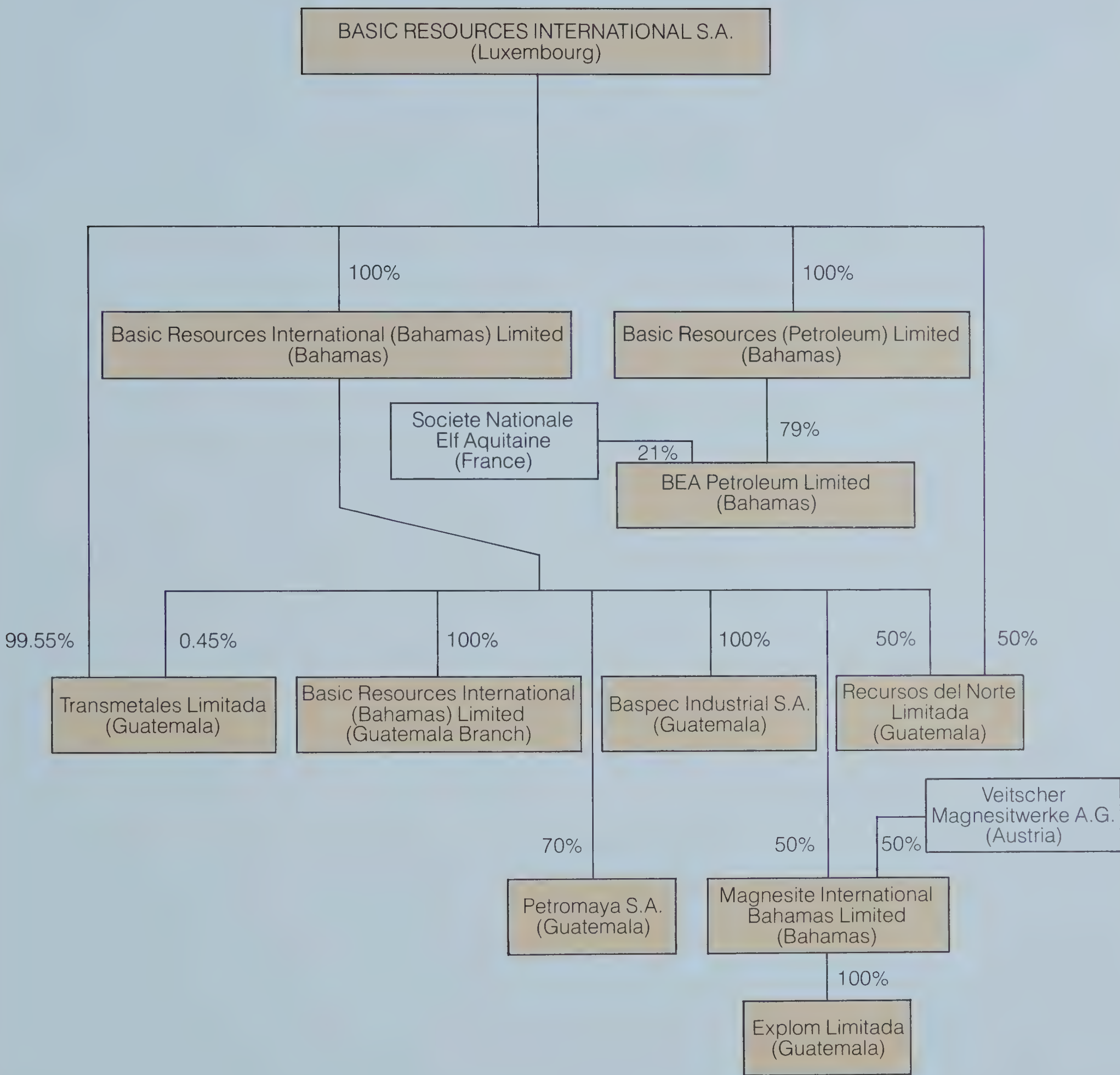
We have examined the consolidated balance sheets and statements of stockholders' equity of Basic Resources International S.A. (a Luxembourg corporation) and subsidiaries as of December 31, 1976 and 1975, the related consolidated statements of revenues and costs, and changes in financial position for the years then ended, and the consolidated statement of changes in financial position since inception to December 31, 1976. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in Notes 1 and 2 to the consolidated financial statements, the Company and its subsidiaries have incurred exploration, development and equipment costs of $24,448,063 as of December 31, 1976, applicable to mineral and petroleum concessions in Guatemala and oil and gas properties in North America. Recovery of these costs is dependent upon the future commercial productivity of the concessions and properties.

In our opinion, subject to the recovery of exploration, development and equipment costs discussed above, the aforementioned consolidated financial statements present fairly the financial position of Basic Resources International S.A. and subsidiaries as of December 31, 1976 and 1975, and the results of their operations and changes in their financial position for the periods mentioned in the first paragraph, in conformity with generally accepted accounting principles consistently applied during the periods.

New York, N.Y.
May 6, 1977

Arthur Andersen & Co.


BASIC RESOURCES INTERNATIONAL S.A. (Luxembourg)
100%
100%
Basic Resources International (Bahamas) Limited (Bahamas)
Basic Resources (Petroleum) Limited (Bahamas)
Societe Nationale Elf Aquitaine (France)
79%
21%
BEA Petroleum Limited (Bahamas)
99.55%
0.45%
100%
100%
50%
50%
Transmetales Limitada (Guatemala)
Basic Resources International (Bahamas) Limited (Guatemala Branch)
Baspec Industrial S.A. (Guatemala)
Recursos del Norte Limitada (Guatemala)
Veitscher Magnesitwerke A.G. (Austria)
70%
50%
50%
Petromaya S.A. (Guatemala)
Magnesite International Bahamas Limited (Bahamas)
100%
Explom Limitada (Guatemala)

OFFICERS AND DIRECTORS

CORPORATE OFFICERS

JOHN D. PARK
President And Chief Executive Officer

DONALD C. CAMPBELL
Executive Vice President

KENNETH G. MURTON
Executive Vice President Finance

RONALD E. EVENSON
Vice President Petroleum

M. R. BONNER
Vice President Administration

JOHN FRENCH
Secretary

ROBERT N. SLATTER
Controller

DIRECTORS

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New York, New York
Chairman Of The Board
Business Consultant To The Rockefeller Family And Associates
Chairman Of The Board Of Trustees Of Cornell University

*RICHARD S. ALDRICH
New York, New York
President Of First Washington Securities Corporation
Director Of Shields Model Roland & Co., Inc.

DONALD C. CAMPBELL
Guatemala City, Guatemala
Executive Vice President

RONALD E. EVENSON
Guatemala City, Guatemala
Vice President Petroleum
Former Vice President Exploration And Development Of Saga Petroleum A/S & Co.

CHARLES J. HOKE
El Dorado, Arkansas
Consulting Geologist
Director Of Ocean Oil And Gas Company
Retired Senior Officer And Former Director Of Murphy Oil Corporation

WILLIAM E. LEONHARD
Pasadena, California
President And Chief Executive Officer Of The Ralph M. Parsons Company

*KENNETH G. MURTON
Westport, Connecticut
Executive Vice President Finance
Former Vice President Of The First Boston Corporation In Charge Of The London And Zurich Offices

ENRIQUE C. NOVELLA
Guatemala City, Guatemala
Industrialist, Co-Owner Of Cementos Novella S.A.

*JOHN D. PARK
Don Mills, Ontario, Canada
President And Chief Executive Officer

*TAKI RIFAI
Paris, France
Directeur Of Banque Arabe et Internationale d'Investissement
Advisor To The Petroleum And Petrochemical Committee Of The Arab League
Former Middle East Manager For The French Petroleum Institute

ERNESTO RODRIGUEZ BRIONES
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Industrialist, Former Chairman And President Of Empresa Electrica de Guatemala S.A.
Director Of Banco Industrial S.A.

*SERGE SEMENENKO
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Financier, Former Vice Chairman Of First National Bank Of Boston
Director Of Hilton International And Bonwit Teller
Trustee Of The Children's Hospital Medical Center Of Boston

ANTONIO TONELLO
Milan, Italy
Chairman Of Credito Varesino
President Of Banco Ambrosiano Group

*CHRISTIAN WEYER
Geneva, Switzerland
Executive Vice President Of The Banque de Paris et des Pays-Bas (Suisse) S.A.

*Member Of Executive Committee

Transfer Agent
National Trust Company, Limited
Montreal, Quebec, Canada

Financial Advisors
Banque de Paris et des Pays-Bas (Suisse) S.A.
Allen & Company Incorporated

Stock Listing
Montreal Stock Exchange-BASM
U.S. Over The Counter-BASRF

BOARD OF DIRECTORS

Reading left to right, Serge Semenenko, Antonio Tonello, Richard S. Aldrich, Ernesto Rodriquez Briones, Charles J. Hoke, John D. Park, Robert W. Purcell, Donald C. Campbell, Kenneth G. Murton, William E. Leonhard, Ronald E. Evenson and Taki Rifai. Absent when the photograph was taken were Enrique C. Novella and Christian Weyer.

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BASIC RESOURCES (PETROLEUM) LIMITED
BEA PETROLEUM LIMITED
MAGNESITE INTERNATIONAL BAHAMAS LIMITED
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Central America

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Designed and Produced for Basic Resources by Raleigh Communications, Inc. New York, N.Y.

The Annual General Meeting of Shareholders of the Company will take place in Luxembourg at 11:00 A.M. Tuesday, June 28th.

BASIC RESOURCES INTERNATIONAL S.A.